Decision **DRAFT DECISION OF ALJ WONG** **(Mailed 4/22/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Adoption of its 2004 Energy Resource Recovery Account (ERRA) Forecast Revenue Requirement, for Review of Contract Administration, Least Cost Dispatch and Procurement Activities during the Record Period January 1, 2003, Through May 31, 2003, and for Approval of its 2004 Ongoing Competition Transition Charges (CTC) Revenue Requirement and Proposed Rate Design. (U 39 E)	Application 03-08-004 (Filed August 1, 2003)

INTERIM OPINION REGARDING THE 2004 ENERGY RESOURCE RECOVERY ACCOUNT APPLICATION

I. Summary

On August 1, 2003, Pacific Gas and Electric Company (PG&E) filed its application for the adoption of its 2004 Energy Resource Recovery Account (ERRA) revenue requirement forecast, for review of its contract administration, least cost dispatch and procurement activities for the record period January 1, 2003 through May 31, 2003, and for approval of its proposed 2004 rates for ongoing Competition Transition Charge (CTC).

On December 16, 2003, PG&E filed a motion for the Commission to issue an interim decision. PG&E's motion requested that the Commission expeditiously issue an interim decision adopting, on an interim basis subject to true-up, PG&E's ERRA revenue requirement and ongoing CTC revenue requirement for 2004. The motion was opposed by the Modesto Irrigation

District (Modesto ID) in its response filed on December 31, 2003. In the February 3, 2004 scoping memo and ruling (scoping memo), PG&E's motion was granted and a schedule for the issuance of the interim decision was set forth in that ruling.

As a result of the requirement in Decision (D.) 03-12-062 that PG&E update its short-term procurement plan, PG&E filed an amendment to its application on February 17, 2004. The amendment updated the 2004 ERRA revenue requirement forecast and the CTC revenue requirement. On April 23, 2004, PG&E submitted an errata which updated its 2004 ERRA revenue requirement forecast and CTC revenue requirement and rates.[1]

Today's decision adopts on an interim basis PG&E's amended 2004 ERRA revenue requirement of $2.189 billion. This decision also adopts on an interim basis, PG&E's amended 2004 CTC revenue requirement of $144.026 million, which is subject to adjustment or change in a subsequent decision.[2]

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[1] The April 23, 2004 errata had the effect of reducing PG&E's proposed ongoing CTC revenue requirement from $150.412 million to $144.026 million, and increasing PG&E's proposed 2004 ERRA revenue requirement from $2.183 billion to $2.189 billion. These changes were made due to PG&E's discovery that five of the qualifying facility contracts should not have been included in the ongoing CTC calculation because the contracts originated after December 20, 1995, the cut-off date for CTC eligibility. As a result, PG&E removed these five contracts from the CTC calculation, and added them to the ERRA revenue requirement. (See May 25, 2004 ALJ Ruling; Exhibit 18.)

[2] The ERRA-related portion of the ongoing CTC revenue requirement of $144.026 million is $28 million. Thus, PG&E's updated forecast of the ERRA revenue requirement ($2.189 billion) and the ERRA-related portion ($28 million) of the ongoing CTC revenue requirement ($144.026 million) totals to $2.217 billion.

II. Background

In D.02-10-062, the Commission established the ERRA balancing account to recover PG&E's procurement plan power costs. The ERRA records the authorized ERRA revenue requirement and actual power costs to determine the recovery of PG&E's procurement plan power costs, excluding the costs associated with the California Department of Water Resources (DWR) power contracts.

In D.03-10-059, the decision addressing PG&E's 2003 ERRA proceeding, we approved a stipulation between PG&E and the Office of Ratepayer Advocates (ORA) that allowed PG&E to include its 2004 ERRA forecast and ERRA reasonableness showing for the first five months of 2003 in its August 1, 2003 ERRA balancing account review filing.[3] PG&E filed this application on August 1, 2003.

Pursuant to D.03-07-030, PG&E's application also includes its calculation for the 2004 ongoing CTC. The ongoing CTC is not recorded in the ERRA balancing account. In accordance with D.02-11-022, the ongoing CTC will ultimately be recovered through the Modified Transition Cost Balancing Account (MTCBA).

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[3] We noted in D.03-10-059 that the stipulation regarding the timing of filing the ERRA application was in conflict with the procedural schedule for filing the ERRA application that was adopted in D.02-12-074. The procedural schedule in D.02-12-074 called for the filing of PG&E's forecast application on February 1 of each year, and the ERRA balancing account review application on August 1 of each year. The procedural schedule in D.02-12-074 was revised in D.04-01-050 to allow for PG&E's filing of its 2004 ERRA forecast and 2003 reasonableness review in August 2003. (D.04-01-050, pp. 175-177.)

ORA and the Modesto ID filed separate protests to PG&E's application on September 4 and September 8, 2004, respectively.

PG&E's December 16, 2003 motion for an interim decision noted that the ERRA and CTC revenue requirements were likely to change slightly as a result of the requirement in D.03-12-062 that PG&E update its short-term procurement plan to reflect changes to fuel price forecasts and open positions. PG&E's motion proposed that upon the filing of its update, that the updated ERRA and ongoing CTC revenue requirements supersede the revenue requirements proposed in the August 1, 2003 application, subject to true-up based on a final decision issued in this proceeding.

A prehearing conference was held on January 9, 2004. One of the items discussed was whether PG&E planned to amend its application to reflect the revised revenue requirements resulting from PG&E's update in response to D.03-12-062. (See Reporter's Transcript, January 9, 2004, p. 5.)

In the scoping memo, it was determined that there was no need for an evidentiary hearing on the 2004 ERRA revenue requirement. Due to Modesto ID's protest to PG&E's application, an evidentiary hearing on the CTC issue was scheduled for April 5 through April 8, 2004.

Pursuant to the schedule established in the scoping memo, ORA indicated in its March 15, 2004 letter to the assigned administrative law judge (ALJ) that it had identified some issues concerning PG&E's contract administration, generation resource dispatch, and procurement activities which require evidentiary hearings. The evidentiary hearings were originally scheduled for May 12 to 14, 2004, but were taken off calendar at the request of ORA and PG&E. (See Reporter's Transcript, May 3, 2004, pp. 16-19.)

The scoping memo granted PG&E's motion for an interim decision on the 2004 ERRA revenue requirement and the 2004 CTC revenue requirement. However, since hearings were to be held on the CTC issue, the scoping memo stated that today's interim decision may be changed or adjusted by a subsequent decision addressing the CTC issue, and that the granting of the motion for an interim decision shall not prejudge the evidentiary hearing regarding the CTC issue.

On February 17, 2004, PG&E filed an amendment to its application, along with its updated prepared testimony. The amendment revised the 2004 ERRA revenue requirement from $1.524 billion to $2.183 billion. The amendment also revised the CTC revenue requirement from $840 million to $150 million. The amendment reflects the update that PG&E submitted on January 20, 2004 in Advice Letter 2464-E in response to D.03-12-062.[4]

The Merced Irrigation District (Merced ID) and the Modesto ID filed separate protests to PG&E's amendment regarding the CTC calculation. No one filed any protests with respect to PG&E's amendment updating the 2004 ERRA revenue requirement forecast. As a result of PG&E's amendment and the protests to the amendment, the issuance of this interim decision was delayed.

Evidentiary hearings were held on the ongoing CTC revenue requirement and rates issues on April 5 and 7, 2004. Pursuant to the ALJ's oral ruling on April 7, PG&E submitted an errata on April 23, which had the effect of further

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[4] According to PG&E's updated prepared testimony, the amended 2004 ERRA revenue requirement reflect more recent fuel price forecasts, updated changes to the residual net open position estimate, and incorporation of renewables procurement activities that occurred after the 2004 ERRA forecast filing on August 1, 2003. (PG&E Updated Prepared Testimony, Vol. I, pp. 1-2 to 1-3.)

updating PG&E's 2004 ERRA revenue requirement forecast and CTC revenue requirement and rates. None of the parties have requested further evidentiary hearings on the CTC issues.

III. Discussion

A. In General

In deciding whether PG&E's motion for an interim decision should be granted, the scoping memo considered the need to implement the proposed rate reduction that was adopted as part of the Modified Settlement Agreement regarding PG&E's bankruptcy proceeding in D.03-12-035. PG&E's 2004 ERRA revenue requirement amount, and the 2004 CTC revenue requirement amount form an integral part of the proposed rate reduction. (Scoping Memo, pp. 6-7; D.04-02-062, p. 43, OP 2; PG&E Advice Letter 2465-E, Attachment 1, pp. 1-2, 4.)

As a result of the granting of PG&E's motion for an interim decision, this decision addresses PG&E's application to adopt its 2004 ERRA revenue requirement forecast and its 2004 CTC revenue requirement forecast on an interim basis. With respect to the 2004 ERRA revenue requirement, as changed by the February 17, 2004 amendment and the April 23, 2004 errata, no one has protested the amount, nor has anyone requested evidentiary hearings on PG&E's forecasted amount. With regard to the 2004 CTC revenue requirement forecast amount, as amended, both the Merced ID and the Modesto ID challenge the amount that PG&E is requesting, and the rate design that should apply.

B. 2004 ERRA Revenue Requirement

PG&E requests that the Commission approve PG&E's 2004 ERRA revenue requirement forecast amount of $2.189 billion. The proposed revenue requirement is shown in Table 9-5 of PG&E's April 23, 2004 errata. The corresponding monthly ERRA revenue requirement is also shown in the unredacted errata version of Table 9-5. PG&E's 2004 ERRA revenue requirement forecast is higher than PG&E's 2003 ERRA revenue requirement of $1.373 billion.[5]

PG&E is not proposing in this application to establish an ERRA-specific rate in this application. PG&E's updated prepared testimony states that as a result of the issuance of D.03-12-035,[6] it anticipates that to implement D.03-12-035, "the Commission will establish an ERRA-specific, as well as an ongoing CTC-specific, rate." (PG&E Updated Prepared Testimony, Vol. I, p. 1-8.)[7]

PG&E's 2004 ERRA revenue requirement is based on PG&E's forecast of 2004 load and resources. As described in Volume I of PG&E's updated prepared testimony, its "load includes sales to retail customers, pre-existing wholesale obligations, transmission and distribution losses, and allowances for unaccounted for energy." (PG&E Updated Prepared Testimony, Vol. I, p. 3-1.) PG&E expects to see an increase in electricity demand of approximately 2% from 2003 to 2004. This projected increase is based on an assumption of moderate economic growth in 2004, continuing strong growth in PG&E's customer base, and reductions in rates.

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[5] PG&E's 2003 ERRA revenue requirement was adopted in D.03-10-059.

[6] D.03-12-035 addressed the Commission's adoption of the modified settlement agreement in I.02-04-026, in which the Commission agreed to jointly support a plan of reorganization for PG&E in PG&E's bankruptcy proceeding.

[7] In D.04-02-062, the Commission approved PG&E's bankruptcy-related rate design settlement, and created rate components for both the ERRA and the MTCBA.

The resources available to meet PG&E's load "include PG&E's retained generation; wholesale purchases made prior to December 20, 1995, such as purchases from qualifying facilities; additional purchases made after December 20, 1995, such as 2002 renewable RFO [request for offers] purchases; DWR's contracts allocated by the Commission to PG&E's customers; and residual market transactions made or planned to be made during 2004." (PG&E Updated Prepared Testimony, Vol. I, p. 3-4.)

PG&E requests that the Commission adopt the fuel cost forecast of $143.911 million for PG&E's retained generation as set forth in Table 4-3 of Chapter 4 of Volume I of PG&E's updated prepared testimony. That chapter estimates the $143.911 million forecast will be made up of 2004 fossil fuel costs of $62.772 million, nuclear fuel costs of $79.263 million, and hydroelectric facilities costs of $1.875 million. PG&E estimates that the ERRA-recoverable portion of the retained generation fuel costs is $140.358 million. PG&E estimates that the remaining $3.553 million of the retained generation fuel costs of $143.911 million will be recovered through the ongoing CTC charge. (PG&E Updated Prepared Testimony, Vol. I, pp. 9-1 to 9-2.)

PG&E's 2004 forecast of its costs for qualifying facilities and power purchase agreements existing prior to December 20, 1995 are discussed in Chapter 5 of Volume I of PG&E's updated prepared testimony. PG&E forecasts total purchased power costs in 2004 of $1.608 billion. PG&E estimates that the ERRA-recoverable portion of the qualifying facilities and power purchase agreements to be $1.599 billion. PG&E estimates that $3.055 million of the $1.608 billion will be recovered through the ongoing CTC charge. (PG&E Updated Prepared Testimony, Vol. I, pp. 9-2 to 9-3; Table 9-2 (April 23, 2004 errata.) PG&E requests that the Commission adopt its cost forecasts of qualifying facilities and power purchase agreements for 2004.

PG&E's 2004 forecast of costs for power purchases made after December 20, 1995 is described in Chapters 6 and 9 of Volume I of PG&E's updated prepared testimony. PG&E forecasts the costs of these new power purchases to be $443.695 million. PG&E forecasts that the ERRA-recoverable portion of the new power transaction costs to be $423 million. PG&E estimates that $20.781 million of the $443.695 million will be recovered through the ongoing CTC charge. (PG&E Updated Prepared Testimony, Vol. I, p. 9-3.) PG&E requests that the Commission adopt PG&E's 2004 forecast of new purchase power costs.

No one requested hearings on PG&E's 2004 ERRA revenue requirement, or on the underlying assumptions which make up PG&E's forecast. Accordingly, the scoping memo appropriately determined that no evidentiary hearings were needed on PG&E's 2004 ERRA revenue requirement forecast. Furthermore, since no one protested PG&E's revised 2004 ERRA revenue requirement of $2.189 billion, as contained in PG&E's February 17, 2004 amendment, as modified by its April 23, 2004 errata, the ERRA revenue requirement issue for 2004 can be resolved without hearings.

We have reviewed the forecasts and assumptions which make up PG&E's 2004 ERRA revenue requirement. We approve PG&E's 2004 load forecast, and its forecast of fuel costs for the various resources that it plans to use to meet its load in 2004. As a result of our approval, the adopted interim 2004 ERRA revenue requirement for PG&E shall be $2.189 billion. The corresponding monthly ERRA revenue requirement, which we adopt, is shown in the unredacted Table 9-5 of PG&E's April 23, 2004 errata. PG&E shall record the revenues generated from the rate based on the corresponding annual revenue requirement for the ERRA to track the difference between the authorized revenue requirement and the actual costs recorded in that account.

C. 2004 CTC Revenue Requirement

1. CTC Calculation

D.03-07-030 directed that the ongoing CTC revenue requirement and rates be set in PG&E's ERRA application. PG&E's application, as modified by the April 23, 2004 errata, requests that the Commission approve PG&E's 2004 ongoing CTC revenue requirement amount of $144.026 million, and its proposed rate design. Of the $144.026 million in ongoing CTC revenue requirement, PG&E proposes that $15.247 million be applicable to direct access customers, $125.922 million be applicable to bundled customers, and $2.858 million be applicable to departing load customers. PG&E's CTC revenue requirement is described in Chapter 7 of PG&E's updated testimony submitted on February 17, 2004, as modified by the April 23, 2004 errata. PG&E's proposed CTC rate design is described in Chapter 8 of PG&E's updated testimony.

PG&E requests that we approve PG&E's methodology for calculating and recording the ongoing CTC revenue requirement. PG&E's methodology is described at pages 7-2 to 7-4 of Chapter 7 of the updated testimony.

PG&E's methodology for calculating the CTC revenue requirement for direct access customers in this proceeding uses the methodology adopted in D.02-11-022. (See D.02-11-022 at p. 107-108.) This CTC methodology includes a generation revenue requirement for PG&E's retained generation, power purchase agreements, qualifying facilities, and employee-related transition costs. The costs of qualifying facilities and power purchase agreements that are eligible to be included in the ongoing CTC revenue requirement are for contracts entered into prior to December 20, 1995. A weighted average cost per megawatt-hour is developed based on these costs, and compared against the benchmark price in order to determine the above-market portion that is eligible for recovery as ongoing CTC.[8]

PG&E's methodology for calculating the ongoing CTC revenue requirement for customer generation departing load customers uses the methodology adopted in D.03-04-030. This methodology is similar to the methodology in D.02-11-022, but omits the costs associated with PG&E retained generation in determining the costs eligible for ongoing CTC recovery. (See D.03-04-030, fn. 72, p. 50.)

As for the methodology for municipal departing load customers, PG&E uses the same methodology in D.03-07-028 that applies to customer generation departing load.

The cost of PG&E's WAPA contract is also included in PG&E's calculation of the ongoing CTC revenue requirement. The WAPA contract expires in 2004.

According to PG&E's updated testimony, and as shown in Table 7-1 of PG&E's April 23, 2004 errata, $142 million is the basis for calculating the

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[8] At pages 7-4 to 7-5 of Volume I of PG&E's updated prepared testimony, PG&E proposes to use as the benchmark the estimate of $0.0518 per kWh that the California Energy Commission expects as the levelized cost of a generic gas fired combined cycle unit. Although PG&E does not endorse the use of costs associated with gas-fired combined cycle units as an appropriate proxy for current short-term market price signals, it is willing to use the CEC's estimate as the benchmark for the purpose of the 2004 ongoing CTC calculations.

ongoing CTC for direct access and bundled customers for 2004. PG&E requests that the $142 million be adopted as the basis.

The actual revenue requirement for ongoing CTC for direct access and bundled customers is $141.168 million. This revenue requirement is derived by calculating an average rate ($1.76 / MWH) and then multiplying the average rate by the direct access load of 8,666 GWH, and bundled customer load of 71,572 GWH. (See PG&E April 23, 2004 errata, Table 7-1.)

As for the basis for calculating the ongoing CTC rate for departing load customers in 2004, PG&E states that the amount is $566 million. PG&E requests that this amount be adopted as the basis for calculating the ongoing CTC rate for departing load customers in 2004.

The actual revenue requirement for ongoing CTC for departing load customers is $2.858 million, as shown in Table 7-1 of PG&E's April 23, 2004 errata. This revenue requirement is derived by calculating an average rate ($7.02 / MWH) and then multiplying the average rate by the departing customer load of 407 GWH.

Thus, the total 2004 ongoing CTC revenue requirement of $144.026 million is made up of the direct access and bundled revenue requirement $141.168 million and the departing load revenue requirement of $2.858 million. PG&E requests that the $144.026 million be adopted as the CTC revenue requirement for 2004.

The Merced ID and Modesto ID are opposed to PG&E's calculation of the ongoing CTC revenue requirement as its applies to departing load customers. In its protest to the amendment, Merced ID asserts that "there is no Commission decision requiring the Tail CTC Calculation urged by PG&E" for municipal departing load customers, and that PG&E's proposed CTC calculation is much higher than what PG&E proposes to be charged to similarly situated direct access customers. (Merced ID Protest, p. 2.) Merced ID contends that PG&E should be required to use the same calculation method for municipal departing load Tail CTC that is used for direct access customers.

The Modesto ID contends that PG&E's proposed CTC revenue requirement and rates for departing load customers do not comply with applicable law, are discriminatory, and should not be approved. Modesto ID asserts that PG&E's CTC methodology deviates from the CTC authorized by Public Utilities Code Section 367 by ignoring below market resources. Modesto ID states that "Any proper calculation of CTC will take account of below market resources to offset the cost of above market resources for which PG&E is to be compensated." (Modesto ID Protest, September 5, 2003, p. 3.) According to the Modesto ID, a proper CTC calculation for departing load customers should be close to zero. Modesto ID also contends that PG&E's proposed CTC rate discriminates against departing load customers by charging them a significantly higher rate than bundled customers.

The CTC revenue requirement issue was identified in the scoping memo as an issue requiring evidentiary hearings. In accordance with the schedule set forth in the scoping memo, hearings on the CTC revenue requirement issue were litigated in evidentiary hearings on April 5 and April 7, 2004. We anticipate that a proposed decision on the CTC issue will be adopted in the near future. The adoption of that decision could change the interim CTC revenue requirement that is being adopted in today's decision.

The scoping memo granted PG&E's motion for an interim decision on PG&E's 2004 ERRA revenue requirement and 2004 CTC revenue requirement. The scoping memo considered the competing interests over the issuance of an interim decision, and concluded that an interim decision should be issued on the CTC revenue requirement.[9] The scoping memo specifically stated that "the granting of PG&E's motion for an interim decision shall not prejudge the evidentiary hearing regarding the CTC issue, and the interim decision may be changed or adjusted by a subsequent decision addressing the CTC issue." (Scoping Memo, p. 7.)

We will adopt on an interim basis, PG&E's proposed 2004 CTC revenue requirement of $144.026 million. This amount may be changed or adjusted in the decision resolving the CTC revenue requirement issue that was adjudicated in the April 2004 evidentiary hearings.[10] We also adopt on an interim basis, PG&E's use of the 5.18 cents per kWh amount as the benchmark for use in the 2004 ongoing CTC calculation.

2. CTC Rate Proposal

In D.03-07-030, the Commission directed that the ongoing CTC revenue requirement and rates be set in this proceeding. Thus, this section addresses the revenue allocation and rate design for PG&E's ongoing CTC.

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[9] The scoping memo weighed PG&E's concern about a possible trigger application and the need to implement the Settlement Plan that PG&E, PG&E Corporation, and the Commission jointly supported in D.03-012-035, with the concern of the Modesto ID over the applicability and calculation of the CTC for departing load customers. (Scoping Memo, p. 6.)

[10] We also note that the April 23, 2004 errata raises the issue of whether the calculation of the ERRA and CTC in prior years needs to be adjusted due to the inclusion of the five qualifying facility contracts as part of the CTC calculation. That issue will be addressed in the upcoming decision regarding the CTC revenue requirement that was litigated in April 2004, and we reserve the right to adjust the ERRA and CTC as a result.

PG&E's allocation of the CTC revenue requirement uses the "100-hour" revenue allocation methodology that was adopted in D.02-11-022 for ongoing CTC. This revenue allocation methodology assigns costs to each rate class in proportion to each class' estimated total bundled and direct access load during the top 100 hours of a single synthetic calendar year. The allocation factors are derived using a weighted average of historic load research data from 2001 and 2002, and rescaled to adjust for any differences between each class' share of total load during the two-year period relative to the test year 2004 sales forecast.

PG&E's proposed rates for ongoing CTC for direct access and bundled service customers are presented in Table 8-1 of PG&E's April 23, 2004 errata, and are based on PG&E's proposed 2004 CTC revenue requirement of $141.168 million. Table 8-1 of the errata is reproduced below.

Customer Class	**Proposed Rate ($/kWh)**
Residential	0.00197
Small L&P	0.00196
Medium L&P	0.00193
E-19	0.00154
Streetlights	0.00026
Standby	0.00099
Agriculture	0.00201
E-20	
E-20 T	0.00112
E-20 P	0.00128
E-20 S	0.00149

The CTC rate that PG&E proposes to charge departing load customers is $0.00703 per kWh, which uses the revenue requirement of $2.858 million. PG&E based this rate on footnote 72 of D.03-04-030. PG&E contends that the footnote specifies that the CTC rate to be charged departing load customers is limited to the recovery of over-market qualifying facility and power purchase costs and employee transition costs.

PG&E requests that the CTC rates described above be adopted.

The Merced ID and the Modesto ID oppose PG&E's CTC rate proposal because the CTC rates are based on PG&E's proposed CTC revenue requirement. Since the scoping memo ruled that an interim decision would issue adopting a CTC revenue requirement on an interim basis, and that interested parties would have an opportunity to challenge PG&E's proposed CTC revenue requirement and rate proposal, we will adopt on an interim basis the CTC rates proposed by PG&E as described in Chapter 8 of PG&E's updated testimony, as modified by the April 23, 2004 errata, and which are summarized above. The interim CTC rates adopted in today's decision are subject to change or adjustment as may be determined in the decision resolving the CTC revenue requirement issue that was adjudicated in the April 2004 evidentiary hearings.

IV. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with § 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on May 12, 2004 by PG&E and Modesto ID, and reply comments were filed on May 17, 2004 by PG&E and Merced ID. Those comments have been considered, and appropriate changes have been made to this decision.

V. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner, and John S. Wong is the assigned ALJ in this proceeding.

Findings of Fact

1. PG&E's motion for the Commission to issue an interim decision on PG&E's ERRA revenue requirement and ongoing CTC requirement for 2004 was granted in the February 3, 2004 scoping memo.

2. PG&E filed an amendment to its application on February 17, 2004 as a result of the requirement in D.03-12-062 that PG&E update its short-term procurement plan.

3. The ERRA records the revenues generated from a rate based on the authorized ERRA revenue requirement and actual power costs to determine the recovery of PG&E's procurement plan power costs, excluding the costs associated with the DWR power contracts.

4. PG&E's August 1, 2003 application was protested by ORA and the Modesto ID.

5. The scoping memo determined that there was no need for an evidentiary hearing on the 2004 ERRA revenue requirement.

6. Due to Modesto ID's protest, the scoping memo scheduled evidentiary hearings on the CTC issue for April 5 through April 8, 2004.

7. PG&E's February 17, 2004 amendment reflects the update that PG&E submitted on January 20, 2004 in Advice Letter 2664-E in response to D.03-12-062.

8. The Merced ID and the Modesto ID filed separate protests to PG&E's February 17, 2004 amendment on the CTC calculation.

9. On April 23, 2004, PG&E submitted an errata which further updated its 2004 ERRA and CTC revenue requirement and rates.

10. The scoping memo considered the need to implement the rate reduction that was adopted as part of the Modified Settlement Agreement in D.03-12-035.

11. PG&E's 2004 ERRA revenue requirement amount, and the 2004 CTC revenue requirement amount form an integral part of the rate reduction.

12. The Merced ID and the Modesto ID challenge the amount of the CTC revenue requirement amount that PG&E is requesting, and the rate design that should apply.

13. The corresponding monthly ERRA revenue requirement that PG&E is requesting appears in the unredacted version of Table 9-5 of PG&E's April 23, 2004 errata.

14. PG&E's 2004 ERRA revenue requirement is based on PG&E's forecast of 2004 load and resources, which are described in Volume I of PG&E's updated prepared testimony.

15. No one requested hearings on PG&E's 2004 ERRA revenue requirement, or on the underlying assumptions which make up PG&E's forecast.

16. The forecasts and assumptions which make up PG&E's 2004 ERRA revenue requirement have been reviewed.

17. D.03-07-030 directed that the ongoing CTC revenue requirement and rates be set in PG&E's ERRA application.

18. PG&E's CTC revenue requirement is described in Chapter 7 of PG&E's updated testimony, and PG&E's proposed CTC rate design is described in Chapter 8 of PG&E's updated testimony.

19. The Merced ID and Modesto ID are opposed to PG&E's calculation of the ongoing CTC revenue requirement as it applies to departing load customers.

20. The CTC revenue requirement issue was identified in the scoping memo as an issue requiring evidentiary hearings.

21. Evidentiary hearings on the CTC revenue requirement issue were litigated on April 5 and April 7, 2004.

22. The scoping memo considered the competing interests over the issuance of an interim decision, and concluded that an interim decision should be issued on the CTC revenue requirement.

23. The scoping memo stated that the granting of PG&E's motion for an interim decision shall not prejudge the evidentiary hearing regarding the CTC issue, and the interim decision may be changed or adjusted by a subsequent decision addressing the CTC issue.

24. PG&E's proposed rates for ongoing CTC for direct access and bundled service customers are presented in Table 8-1 of PG&E's April 23, 2004 errata, and are based on PG&E's proposed 2004 CTC revenue requirement of $141.168 million.

25. The CTC rate that PG&E proposes to charge departing load customers is $0.00703 per kWh, which is based on PG&E's proposed CTC revenue requirement of $2.858 million for departing load customers.

26. The Merced ID and Modesto ID oppose PG&E's CTC rate proposal because the CTC rates are based on PG&E's proposed CTC revenue requirement.

Conclusions of Law

1. The scoping memo appropriately determined that no evidentiary hearings were needed on PG&E's 2004 ERRA revenue requirement forecast.

2. Since no one protested PG&E's revised 2004 ERRA revenue requirement of $2.189 billion, the ERRA revenue requirement issue 2004 can be resolved without hearings.

3. PG&E's 2004 load forecast, and its forecast of fuel costs for the various resources that it plans to use to meet its load in 2004, should be approved.

4. The Commission should adopt a 2004 ERRA revenue requirement of $2.189 billion for PG&E.

5. PG&E should be required to record the revenues generated from a rate based on the corresponding annual revenue requirement for the ERRA to track the difference between the authorized revenue requirement and the actual costs recorded in that account.

6. A decision on the CTC revenue requirement issue could change the interim CTC revenue requirement that is being adopted in today's decision.

7. The Commission should adopt on an interim basis, PG&E's proposed 2004 CTC revenue requirement of $144.026 million.

8. The ERRA and CTC calculations for prior years may require adjustments due to the inclusion of five qualifying facility contracts as part of the CTC calculation.

9. The Commission should adopt on an interim basis, PG&E's use of the 5.18 cents per kWh amount as the benchmark for use in the 2004 ongoing CTC calculation.

10. The Commission should adopt on an interim basis, PG&E's proposed CTC rates as described in Chapter 8 of PG&E's updated testimony, and which are summarized in this decision.

11. A decision on the CTC revenue requirement issue could change the interim CTC rates that are being adopted in today's decision.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company's (PG&E) 2004 load forecast, and its 2004 forecast of fuel costs to meet its load, is approved.

2. The Commission adopts on an interim basis a 2004 Energy Resource Recovery Account (ERRA) revenue requirement of $2.189 billion for PG&E.

   a. PG&E shall record the revenues generated from the rate based on the corresponding annual revenue requirement for the ERRA to track the difference between the revenues generated from the rate based on the authorized revenue requirement and the actual costs recorded in that account.

   b. PG&E is authorized to align the costs and revenues already recorded in 2004 in the ERRA and the Modified Transition Cost Balancing Account, and to adjust rates on an interim basis to prevent a misalignment of costs and revenues pending a final decision in this proceeding.

3. The Commission adopts, on an interim basis, a 2004 Competition Transition Charge (CTC) revenue requirement amount of $144.026 million.

   This interim CTC revenue requirement amount of $144.026 million shall be subject to change or adjustment as may be determined in the decision addressing the CTC revenue requirement issue which has been the subject of evidentiary hearings.

4. The following rates are adopted on an interim basis:

   a. The rates shown in Table 8-1 of PG&E's April 23, 2004 errata, and which are summarized in this decision, shall be adopted as the interim CTC rates for direct access and bundled service customers.

   b. The rate of $0.00703 per kWh shall be adopted as the interim CTC rate for departing load customers.

c. The above interim rates for direct access, bundled service customers, and departing load customers are subject to change or adjustment as may be determined in a decision resolving the CTC revenue requirement issue.

5. The Commission adopts, on an interim basis, PG&E's 5.18 cents per kilowatt-hour benchmark for use in PG&E's 2004 ongoing CTC calculation.

This order is effective today.

Dated ____________________________, at San Francisco, California.